

Message Text

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ACTION NEA-10

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C O N F I D E N T I A L CAIRO 935

E.O. 11652: GDS

TAGS: EAID, EG, USEGJC

SUBJECT: GOE 1976 FOREIGN EXCHANGE BUDGET

1. DURING RECENT MEETING AT MINISTRY OF FINANCE,
FIRST UNDERSECRETARY EL SARRAF PROVIDED US IN STRINCT CONFIDENCE,
WITH COPY OF GOE FOREIGN EXCHANGE BUDGET FOR CY 1976
WHICH IS SUMMARIZED BELOW. IN ORDER TO FACILITATE
ANALYSIS, WE ALSO ARE SHOWING COMPARABLE DATA
SUMMARIZED FROM 1976 FX BUDGET WHICH WAS USED AS
FRAMEWORK FOR DISCUSSION ON B/P ASSISTANCE TO
EGYPT DURING MAY 1976 VISIT OF UNDERSECRETARY
ROBINSON (FIGURES IN MILLIONS OF EGYPTIAN POUNDS;
MINUS SIGN INDICATES PAYMENT).

A. CONVERTIBLE CURRENCIES	1975	1976
COMMODITY EXPORTS	243	352
COMMODITY IMPORTS	-1,772	-1,818
NET SERVICES	137	187
BALANCE GOODS AND SERVICES	-1,392	-1,179
MEDIUM AND LONG-TERM DEBT SERVICE	-211	-287
TOTAL DEFICIT	-1,603	-1,466
LONG AND MEDIUM- TERM FINANCING OF DEFICIT:		
CASH GRANTS AND LOANS	508	401
LOAN FINANCING OF CAPITAL GOODS IMPORTS	312	272

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LOAN FINANCING OF CONSUMER INTERMEDIATE GOODS 230 120

OTHER FINANCING	25	120
UNFINANCED DEFICIT (BEFORE NET SHORT-TERM BORROWING)	-528	-553
NET USE OF BANKING FACILITIES (CONTRACTED)	-98	-160
(REPAID)	(798)	(560)
UNFINANCED DEFICIT (AFTER PROJECTED NET SHORT-TERM BORROWING)	(-700)	(-700)
	-430	-713

B. BILATERAL AGREEMENTS

COMMODITY EXPORTS	397	332
COMMODITY IMPORTS	-410	-362
NET SERVICES	- 2	- 4
BALANCE GOODS AND SERVICES	-14	-34
DEBT SERVICE	-230	-117
USE OF CREDIT FACILITIES	38	83
NET DEFICIT	-206	-68

2. PLEASE NOTE THAT DEFICIT ON BILATERAL AGREEMENTS DOES NOT USUALLY CONSTITUTE DRAIN ON FOREIGN EXCHANGE RESERVES SINCE BALANCE IN EACH CLEARING ACCOUNT IS NORMALLY CARRIED FORWARD TO NEXT YEAR. IT ALSO SHOULD BE KEPT IN MIND THAT 1975 FX BUDGET SHOWN ABOVE WAS PREPARED IN APRIL 1975 AND WAS REVISED LATER. WE KNOW, FOR INSTANCE, THAT ESTIMATE FOR COMMODITY IMPORT FINANCING (OTHER THAN CAPITAL GOODS IMPORTS) WAS REVISED DOWNWARD IN SEPTEMBER 1975 FROM LE 230 MILLION TO LE 170 MILLION, WHILE A CEILING OF LE 700 MILLION WAS PLACED ON USE OF SHORT-TERM BANKING FACILITIES. ACTUAL FX BUDGET DATA FOR CY 1975 WILL BE AVAILABLE BY END OF JANUARY.

3. CY 1976 FX BUDGET DIVIDES CAPITAL GOODS IMPORTS INTO TWO TRANCHES OF (A) LE 318 MILLION (INCLUDING LE 23 MILLION UNDER BILATERAL AGREEMENTS) AND (B) LE 207 MILLION (INCLUDING LE 12 MILLION UNDER BILATERAL AGREEMENTS). FIRST TRANCHE CONSTITUTES CAPITAL IMPORTS REQUIRED TO SUPPORT A PLANNED

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1976 INVESTMENT LEVEL OF LE 780 MILLION. SECOND TRANCHE REPRESENTS ADDITIONAL CAPITAL GOODS IMPORTS REQUIRED TO SUPPORT A POSSIBLE INCREASE IN PLANNED 1976 INVESTMENT TO LE 1,350 MILLION (IT WOULD ALSO REQUIRE ADDITIONAL IMPORTS OF INTERMEDIATE GOODS OF LE 61 MILLION, ALL FROM CONVERTIBLE CURRENCY COUNTRIES). 1976 FX BUDGET INCLUDES LE 89 MILLION OF LOAN FINANCING (INCLUDING LE 4 MILLION FROM

BILATERAL AGREEMENT COUNTRIES) FOR SECOND TRANCHE IMPORTS. THUS, IF ONLY PROJECTS INCLUDED IN THE LE 780 MILLION ARE IMPLEMENTED IN 1976, THE CONVERTIBLE CURRENCY FX BUDGET WOULD SHOW AN UNFINANCED DEFICIT OF LE 540 MILLION (WITH COMMODITY IMPORTS REDUCED TO LE 1,562 MILLION AND LOAN FINANCING OF CAPITAL GOODS IMPORTS REDUCED TO LE 187 MILLION).

4. ONLY US LOAN FINANCING IDENTIFIED IN 1976 FX BUDGET IS LE 80 MILLION (\$200 MILLION AT OFFICIAL RATE OF EXCHANGE) SHOWN AS LOAN FINANCING OF FIRST TRANCHE CAPITAL GOODS IMPORTS. DR. EL SARRAF INDICATED THAT PL480 AND AID FINANCING WAS INCLUDED IN FX BUDGET LINE ITEM SHOWN ABOVE AS LOAN FINANCING OF CONSUMERS AND INTERMEDIATE GOODS. AMOUNT OF LE 120 MILLION IN ITEM APPEARS TO BE ON LOW SIDE, HOWEVER. TOTAL SHOWN UNDER QUOTE OTHER FINANCING UNQUOTE FOR 1976 INCLUDES LE 50 MILLION ESTIMATED CAPITAL INFLOW THROUGH JOINT VENTURES AS WELL AS LE 25 MILLION OF COTTON PREFINANCING (AS IN 1975) AND LE 45 MILLION OF IMPORTS FINANCED FROM 1975 FX BUDGET RESOURCES (POSSIBLY THE \$100 MILLION US COMMODITY IMPORT LOAN SIGNED IN DECEMBER 1975). EILTS

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